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SPECIAL REPORT

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1982 Tax Rate: \$230.90

The Other Side of Proposition 2½--A Cut of \$41.80

In the first full year of Proposition 2½ Boston's tax rate decreased by \$41.80 or 15%. This is the first cut since 1966, when the rate dropped \$14.00 or 12%. The tax saving this year for the average single-family home with an assessed value of \$6,563 is \$274.00. For the average commercial property with an assessed value of \$110,766 the tax saving is \$4,630. The reduction of property taxes represents one side of Proposition 2½. The other side is a reduction of \$75 million in city departmental budgets, resulting in layoffs of 2,700 city-funded employees and over 700 permanent teachers.

Property tax revenue this year decreased by \$78 million or 15%. Boston's dependence on the property tax decreased from 59% of total general fund revenue in FY'81 to 53% this year. Non-property tax revenues increased by \$38 million, due primarily to \$33 million in new state aid along with increases in hospital and parking-fine revenues. Thus, the net revenue loss to Boston in FY'82 was \$40 million, which forced a comparable reduction in City appropriations. At the same time fixed charges rose \$41 million, mostly due to expenses for "Tregor" abatements and an increase of \$2 million for the MBTA assessment. As a result, city departmental appropriations were cut by \$75 million, Suffolk County by \$3 million and the School Committee by \$6 million.

The fiscal outlook for next year has been improved by enactment of the 2½ amendments. Boston now faces a property tax reduction of \$66 million rather than the \$78 million originally expected. City officials and the voters have in their hands a series of financial options to further ease the revenue reduction burden in FY'83. The \$66 million cut can be reduced if a majority of voters agree to exempt pre-2½ debt from the tax levy. By a separate majority vote they can also authorize the required reduction to be cut up to one-half. In addition, completion of city-wide property revaluation next year could bring the levy closer to the 2½ limit, further decreasing the amount required to be cut. Though these options exist, the majority votes and completion of revaluation next year are all uncertain. Finally, the budget impact of the FY'83 tax reduction may be eased because some of this year's operating expenses may not reoccur and there is some prospect of additional state aid. Boston still needs the financial reforms and revenues of "Tregor."

TAX RATE IN BRIEF (in 000's)

	FY 1981	FY 1982	Increase (Decrease)	% Change
Appropriations	\$878,079	\$837,984	\$ (40,095)	(4.6)%
Non-Property Tax Revenue	359,404	397,265	37,861	10.5 %
Property Tax Levy	518,675	440,719	(77,956)	(15.0)%
Assessed Valuation	1,902,000	1,908,701	6,701	0.4 %
Tax Rate	272.70	230.90	(41.80)	(15.3)%

The total assessed value of \$1.9 billion is divided between \$1.6 billion in real estate property value and \$273 million in personal property value.

WHERE THE MONEY GOES (in \$000's)

	Appropriations		% of	Increase
	FY'81	FY'82	FY'82	(Decrease)
			Total	
Departmental Maintenance	\$590,580	\$507,650	61%	\$(82,930)
City	269,270	194,108	23	(75,162)
County	14,132	11,279	2	(2,853)
School	216,721	210,534	25	(6,187)
Hospital	90,457	91,729	11	1,272
Fixed Charges	\$240,020	\$280,597	33%	\$40,577
Contributory Pensions	76,295	83,443	10	7,148
Debt Service	90,161	85,147	10	(5,014)
Tax Title Costs	1,200	1,200		--
Overlay Deficit	22,662	55,170	6	32,508
Overlay Reserve	24,702	24,140		(562)
Prior Yr. Appropriation Deficit	25,000	29,279	3	4,279
Prior Yr. Revenue Deficit	--	2,218		2,218
Metropolitan & State Assessments	\$47,479	\$49,737	6%	\$2,258
MBTA Assessment	41,217	43,455		2,238
MDC Parks Assessments	4,372	4,176		(196)
State Assessments	1,890	2,106		216
Total	\$878,079	\$837,984	100%	\$(40,095)

-City departmental budgets decreased by \$75.2 million or 28% as a result of the reduction in the property tax revenue and the added funds needed for the "Tregor" abatements. The personnel appropriations for all city departments were reduced by \$37.9 million or 16%. The Bureau has verified a reduction of 2,726 city-funded positions or 21% from January 1, 1981 to October 27, 1981. The school appropriation is funded at basically the same level as the FY'81 budget when the tax rate was set. Last May the Mayor and City Council appropriated a \$6.4 million school supplementary appropriation from an advanced state aid payment. Boston is the only school committee in the state which retains any sort of limited fiscal autonomy.

-Contributory pensions increased by \$7.1 million or 9% and represent 10% of the total city operating budget. The city's unfunded pension liability represents a "financial time bomb" for which the city is not prepared. New legislation regulating disability retirement and employee contributions and benefits is required.

-The overlay deficit of \$55 million includes \$15 million in tax refunds paid in excess of the original overlay reserve for the fiscal years 1975-1979. In addition, \$40 million is being raised to provide for the "Tregor" abatements.

The FY'81 appropriation deficit of \$29 million was the largest in the last seven years. The deficit is split between the School Committee with \$28.6 million and Suffolk County with \$869,000. Use of excess receipts enabled the City to finish the year with a \$234,000 surplus, ending a seven-year series of deficits.

-Debt service costs decreased by \$5 million reflecting the City's absence from the bond market since June, 1980. Principal and interest on general obligation bonds decreased by \$8 million from last year. Nevertheless, that debt service is still high at 10% of the operating budget. Interest available for temporary tax anticipation notes decreased by \$1.8 million to \$6 million. The city has borrowed and repaid \$30 million in tax notes for which it paid \$734,000 in interest.

WHERE THE MONEY COMES FROM (in \$000's)

	Revenues		% of FY81 TOTAL	Increase (Decrease)
	FY'81	FY'82		
Departmental Revenues	<u>\$112,221</u>	<u>\$134,306</u>	<u>16%</u>	<u>\$22,085</u>
Health & Hospitals	75,097	87,001		11,904
City	28,058	32,656		4,598
County	7,197	14,000		6,803
School	1,869	649		(1,220)
State Revenues	<u>\$190,773</u>	<u>\$224,049</u>	<u>26%</u>	<u>\$33,276</u>
Chapter 70, School Aid	94,079	90,637		(3,442)
Teachers' Pensions	17,700	20,000		2,300
School Construction	18,481	15,227		(3,254)
Transportation of Pupils	5,950	9,864		3,914
Lottery	10,654	10,475		(179)
Local Aid-Add. Assist.	25,015	56,708		31,693
Chapter 121A Properties Excise	11,823	13,132		1,309
Miscellaneous	7,071	8,006		935
Additional State Aid	9,400	--		(9,400)
Federal Reserve Sharing	\$21,854	\$21,950	3%	\$ 96
Motor Vehicle Excise Tax	\$14,939	\$ 5,000)		\$(9,939)
Parking Meter Fees	2,000	719)	2%	(1,281)
In Lieu of Taxes	8,217	11,241)		3,024
Total Non-Property Tax Revenues	<u>\$359,404</u>	<u>\$397,265</u>	<u>47%</u>	<u>\$37,861</u>
Property Tax Levy	<u>\$518,675</u>	<u>\$440,719</u>	<u>53%</u>	<u>\$(77,956)</u>
Total	<u>\$878,079</u>	<u>\$837,984</u>	<u>100%</u>	<u>\$(40,095)</u>

-Departmental revenues increased by \$22 million or 20%, primarily as a result of the increase of \$12 million in hospital revenues. City estimates of \$87 million in FY'82 hospital receipts are \$2 million less than the amount authorized by the state's Rate Setting Commission. This indicates a potential revenue surplus later in the year. City departmental revenues increased by \$4.6 million due to higher receipts for interest on investments, federal reimbursements for city payments for federally funded employees' fringe benefits and state rental of Suffolk County Court facilities. That court rental is still less than actual maintenance costs. Suffolk County revenues increased by \$6.8 million. That reflects anticipated parking ticket receipts which should increase now that the City has sole responsibility for the issuing of summonses and all collections.

-State aid for tax rate purposes for FY'82 will total \$224 million, up \$33 million or 17%. That offsets 43% of the loss of property tax revenue due to Proposition 2½. Boston's share of total state aid to all municipalities was 16.8%, down from 17.5% last year. Last May Boston received a one-time advanced payment from the state of \$9.4 million owed for school construction.

-The motor vehicle excise tax is estimated to generate only \$5 million, 55% less revenue than actually received last fiscal year. In FY'81 the first half collection was based on a \$66 per thousand rate and the second half on \$25 per thousand. Nevertheless, the city's estimate is conservative since Boston received \$6 million in motor vehicle excise revenue in the last six months of FY'81.

The financial outlook for Boston is somewhat brighter and now can be improved further through local action. As a result of the recently enacted 2½ amendments, the cut in the property tax will be \$12 million less than previously expected. Originally Proposition 2½ would have required Boston to cut property taxes in FY'83 by an amount equal to 15% of its FY'81 levy or by \$78 million. As amended, the 15% reduction is from the FY'82 levy, which will require a lesser cut of \$66 million. City officials and voters have in their control options to help ease the 2½ burden even further. The 2½ amendments enable a majority of voters, in a special election called by a two-thirds vote of the City Council, to exempt pre-2½ debt from the tax levy. The 15% cut would be taken from this reduced figure, producing a smaller property tax reduction of \$54 million. In a similar manner a separate majority vote would permit the required reduction to be cut by up to one-half. As a result, instead of a 15% cut, the tax levy could be decreased by up to 7½% or \$33 million. If the debt were also exempted the total cut would be \$27 million. Also, new debt may be exempted if approved by a majority of the voters. Implementation of City-wide property revaluation next year could raise the 2½ limit closer to the levy, further decreasing the amount required to be cut. However, the City may have difficulty exercising these options and relief from them next year is uncertain. The financial reforms and revenues of the Boston financial plan home rule petition are still needed to enable Boston to provide adequate services, improve its management capacity and reduce its reliance on the property tax.

Revaluation alone in FY'83 will not prevent a second 15% cut in the property tax levy. The City's current assessed valuation is \$1.9 billion and the state's current estimate of Boston's market value is \$5.9 billion. If revaluation increases the City's assessed value next year to \$14 billion, the high side of what may be achieved, Boston's current levy would still have to be reduced by \$90 million to reach the 2½ limit of \$350 million. Boston's assessed value would have to increase to \$17.6 billion for the City to reach the 2½ limit without cutting the property tax further.

The reduction in property tax revenue next year may be absorbed somewhat by the amount of fixed charges in this year's operating budget which should not be required next year. If no appropriation or revenue deficit is incurred this year, the \$31 million raised in the FY'82 tax rate for those expenses will not be needed next year and can help reduce the cuts in the City departmental budgets. Also, any additional state aid next year will help mitigate the tax cut.

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